Ankum is correct in noting that under the PIP contracts the vendor carries the cost of additional installed facilities until they are "purchased" by Ameritech, he is comparing apples to oranges. The 90% fill factor applies only to DS1s that have been purchased and paid for by Ameritech; it does not capture the additional DS1s that may physically exist on the switch but which have not been paid for or activated.

Q. At pages 46 and 47, Dr. Ankum states that ARPSM uses expedited prices for Lucent's switches, which do not reflect normal delivery intervals. Is Dr. Ankum correct?

A. Yes, he is. Ameritech originally assumed a seven- to nine-week delivery interval for Lucent's switches in ARPSM. The seven- to nine-week interval was selected based on the belief at that time that shorter delivery intervals would be required to meet the demands of customers and emerging competition. However, data provided in the Wisconsin proceeding to which Dr. Ankum refers has revealed that the 14-week interval has been the norm, even though shorter delivery intervals do occur. Ameritech does not currently have an estimate of the forward-looking mix of delivery intervals. Consequently, ARPSM and the ULS-ST studies at issue in this proceeding have been modified to reflect the longer interval. The revised cost studies have been attached to my rebuttal testimony.

Usage-Sensitive Costs

Q. Do you agree with Dr. Ankum's assertions at page 14 that conceptually, there are no usage-sensitive costs for switching?

A. No. Dr. Ankum's assertion is fundamentally based on a superficial examination and short-run view of Ameritech's switch vendor contracts and customers' usage. It is important to understand that Ameritech Illinois' end-user customers' usage incrementally causes switch investments.

Q. Why is it important to understand that Ameritech Illinois' end-user customers' usage incrementally causes switch investments?

A. Although Ameritech generally pays its vendors for switching on a flat-rate-per-line basis, it would be incorrect to infer that Ameritech's true forward-looking cost of providing switching service is genuinely independent of customers' usage. Implicit in the PIP contracts is the assumption that the vendor will provide switching functionality up to a certain hundred call seconds (CCS) capacity. However, the continuing and rapid increase in network utilization due to, among other things, Internet and data usage has changed the economics of the network, and the capacity assumptions implicit in the PIP vendor contracts are beginning to be exceeded.

Q. At page 14 of his Direct Testimony, Dr. Ankum specifically claims that there are no provisions in Ameritech's vendor contracts that would cause Ameritech to incur usage sensitive costs. Do you agree?

A. No. Each PIP contract has provisions for charges associated with orders that are designated as usage or CCS jobs. Ameritech Illinois may incur charges for such jobs. [redacted]

Q. Dr. Ankum also states at page 14 that switch capacity is constrained by the number of line ports and trunk ports served by the switch and, since the switch is installed with sufficient processor capacity to serve all lines, "usage is not a binding constraint on switch capacity." What is your response to this assertion?

A. Dr. Ankum's statement is overly simplistic and inaccurate. From an engineering perspective, as the CCS usage of a switch increases, additional trunk ports must be installed to serve that usage. For example, a heavily utilized switch may require one trunk for every 3 or 4 lines, while a lower-usage switch may only require 1 trunk for every 8 lines. In order to channel these calls from the line to the trunk "side" of the switch, Ameritech must install additional equipment not cited by Dr. Ankum, such as umbilicals, line units, and extra switching modules. In short, a switch requires more equipment than just line cards, trunk cards, and central processor as Dr. Ankum implies.

Due to the additional equipment required, a higher-usage switch costs the vendor more to provide than a lower-usage switch. If the vendor's contractual per-line price assumes the installation of lower-usage switches, and if usage unexpectedly increases significantly (thereby requiring the installation of higher-cost switches), it is reasonable to assume that the vendor will adjust its per-line price upward at its first opportunity in order to maintain its expected level of profits. Dr. Ankum made this exact point in his deposition for the Ohio UNE (00-1368-TP-ATA) and Michigan Shared Transport (U-12622) dockets on 11/29/2000 at pages 73 and 74:

> Q. Okay. Now, on Page 23 of your testimony, at the very bottom, you indicate that, … "...if Nortel had reason to believe that the line usage would be significantly higher in the future, it would presumably re-engineer its switches..." Do you see that?
>
> A. Yes.
>
> Q. Would I be correct to assume that there would be certain costs with re-engineering the switch?
>
> A. When I use the phrase here "re-engineer," I'm not talking about going back to all existing switches. It would re-engineer the way that it builds switches and the way that it sells switches, and so Nortel would then come to Ameritech with a different contract, or in the next round of negotiations Nortel would say, "Well, we have found that your switch usage really has gone up a lot. Instead of charging you, for example, $100 per line, we're going to be charging $120 per line, because now your lines generate so much more usage on average that I need to put in extra facilities, more than I used to put in," and so they would engineer it somewhat differently, and to the extent that more facilities are involved, they may charge you a higher price.

Hence, a forward-looking cost study must account for the additional incremental cost/investment that the increased usage will cause.

In short, Dr. Ankum misunderstands the basic provisioning of switch capacity. Vendors do not install the switches with sufficient capacity to accommodate all potential usage associated with the line ports. In fact, Ameritech's engineers do place orders, called CCS jobs, for additional equipment to accommodate usage growth beyond what switch vendors have placed for line growth. This need to place additional equipment to accommodate usage growth clearly demonstrates that usage is also a cost-driver for switching investment.

Q. At page 15 of his direct testimony, Dr. Ankum states that "usage does not cause any additional costs to come into existence." Is Dr. Ankum's statement accurate?

A. No. Again, Dr. Ankum's statement is misleading. As I showed above, costs to the vendor increase with usage. It is therefore irrational to believe that contract prices would not vary even when the vendor's costs change. If a switch vendor must install more equipment to accommodate additional usage, logically it will raise its price at the next available opportunity. In addition, as I have previously indicated, vendors may separately charge for CCS jobs.

As an example of this common-sense phenomenon, an all-you-can-eat buffet restaurant might set its single price based on an "average" level of food consumption per person. It is clear that the restaurant's costs would increase if, for example, the Chicago Bears or the World Wrestling Federation opened a training facility next door. The restaurateur would quickly raise his price for the buffet or stop charging on a per-customer basis. The principle for switch vendors is no different. Dr. Ankum's arguments that switch costs are solely a function of lines and trunks served would have the Commission believe that the restaurant's costs are solely driven by the number of customers served, irrespective of any consideration of the amount of food consumed.

Q. Has Ameritech had occasion to add switch capacity as a result of CCS growth even though the line capacity of the switch had not been exceeded?

A. Yes, it has.

Q. Please provide an example where this has occurred.

A. The Lucent switch at the Youngstown, Ohio 78 central office has been experiencing a decrease in access lines over the past three years. However, the average usage per line has been increasing over this same period. The equipment associated with this switch needed to be augmented to accommodate the increase in average usage per line despite decreasing lines. Consequently, two separate CCS jobs have been completed over the past three years for this switch. Because line traffic is still increasing on this switch, another CCS job is scheduled in several months. Usage directly caused Ameritech to incur additional costs. Dr. Ankum is either unfamiliar with or overlooks such realities.

Q. Are purchases of additional switching equipment that have been caused by customers' growth in usage unusual?

A. No. While the occurrence of CCS jobs was relatively rare in the early years of the PIP contracts, their occurrence in the past several years has grown dramatically. [redacted]

[redacted]

Q. Are there policy reasons to reject Dr. Ankum's proposal?

A. Yes, there are at least two. First, if the pricing structure of switching shifts from usage-based charges to line-based charges, as Dr. Ankum suggests, it follows that low-usage customers would be subsidizing the use of high-use customers, such as day traders logged into the Internet all day. Second, CLECs would have an incentive to develop new applications that increase network usage (and a disincentive to invest in their own facilities), since they would not incur any additional charges with line-based pricing, although they would be imposing additional usage costs on Ameritech Illinois.

Q. Are Dr. Ankum's recommendations regarding usage costs and the replacement-growth line relationship inconsistent with each other?

A. Yes, they are. Dr. Ankum first recommends an extremely aggressive interpretation of vendor pricing when he recommends applying the replacement line prices to millions of lines in the embedded network not subject to the contracts, despite explicit contractual limits on the number of lines available at the low replacement price. However, when it comes to his recommendations regarding usage-related charges, Dr. Ankum clings dogmatically to the letter of the contracts. He argues that since no explicit short run usage-related charges are specified in the contracts, there are no usage-related costs in the network at all and that therefore his clients should not have to pay for usage.

Q. Has Ameritech ever purchased switching equipment for POTS that has been priced to Ameritech on a usage-sensitive basis?

A. No, Ameritech has not purchased switching equipment for POTS on a per-minute, per-call, or other usage basis from its switch vendors. Under the vendor contracts that preceded the Analog Switch Replacement and Partners-in-Provisioning (PIP) contracts, vendors provided a long list of prices for specific switch equipment. Ameritech employed numerous traffic engineers whose job was, in part, to analyze the usage patterns of customers using a switch and determine what pieces of equipment were required to serve that demand. Even under the intricate, engineering-intensive contracts that preceded the PIP contracts, usage-sensitive costs were not explicitly defined. Dr. Ankum's proclamation that the PIP contracts lack CCS-sensitive contract items is equally applicable to every preceding vendor contract of which I am aware. Yet, even in these former contracts, as in the current PIP contracts, the usage-sensitive components were necessarily implicit in the per-port price.

Q. Are the PIP contracts completely silent about usage?

A. No. For example, in addition to provisions dealing with CCS jobs, each contract has service and performance requirements regarding network traffic. Also, under the PIP contracts, traffic engineering still occurs, but was substantially taken over by the switch vendors. [redacted]

Q. At page 17, Dr. Ankum states that "if costs are implied rather than explicitly found in the switch vendor contracts, then the chain of cost causation that should guide cost analysts in identifying costs is absent." Please respond to Dr. Ankum.

A. Dr. Ankum's statement misstates a cost analyst's job description. Generally, equipment vendors sell pieces of equipment at a given price. This equipment is then used to provide various functions, but vendors do not typically set prices based on these functions or the eventual quantity of usage of the equipment. In the case of switch vendors, a "switch" provides functions such as line termination, usage, vertical features, etc. Vendors do not explicitly provide prices for these functions, such as CCS. However, if a vendor's equipment must provide more CCS functionality, the equipment it sells must be augmented. The vendor's costs will therefore increase, and so a rational vendor will recover these increased costs in the prices charged for the augmented equipment. These relationships among function, equipment, and pricing constitute the "chain of cost causation," and it is the task of the cost analyst to analyze the links in this chain to assign them the appropriate cost. In preparing ARPSM, Ameritech's cost analysts worked with the switch vendors to identify the costs incurred by switch vendors to provide CCS usage capacity.

Q. At the bottom of page 17, Dr. Ankum states that "Ameritech's cost analyst posed the question to vendors how much it would cost them to go back into the switch after it has been installed and to upgrade the switch to accommodate a much higher level of usage." Is Dr. Ankum's description correct?

A. No, it is not. Ameritech asked the switch vendors to provide the costs of new switching equipment supporting CCS levels higher than those assumed by the PIP contracts. Contrary to Dr. Ankum's assertion, Ameritech did not ask about upgrading already installed digital switches. Ameritech used the information obtained from the vendors to develop a cost per CCS based on the assumption that each CCS costs the same (the first CCS of usage costs the same as an incremental

CCS of usage above that which is typically installed under the PIP contracts). Therefore, Ameritech is not analyzing "the costs of accommodating some higher, more intense level of usage" as claimed by Dr. Ankum at page 18, but rather is splitting out the costs of usage at *current* CCS levels, derived by analyzing the incremental costs of usage. For example, if a vendor contract presumed that a line port carrying 3 CCS of usage cost $20, and if a 4 CCS line cost $21, ARPSM would compute a line port cost of $17 and a usage cost of $1 per CCS, for a total charge of $20 ($17 + 3 * $1) for the actually installed 3 CCS line. This calculation analyzes the actual usage characteristics of a switch, and does not attempt to recover costs of usage that does not actually exist in the network.

Q. At page 19, Dr. Ankum asserts that Ameritech asked its vendors to assume that peak usage would double. Is that statement correct?

A. No. My prior answer discusses the reasons that Ameritech asked its vendors to price higher incremental levels of CCS. Although the usage increment actually provided by the vendor is entirely irrelevant to the total cost per actual line since ARPSM simply uses this incremental usage to split the costs of a line given its *actual* level of CCS, Dr. Ankum has overstated the magnitude of these increments in his attempt to create an issue where none exists. For example, the Nortel letter discussed below clearly shows that Nortel provided data that identify equipment and pricing for various increments of CCS capacity that are substantially less than double the capacity assumed in the contract prices. Siemens provided similar information. Although Lucent provided less detail, they did provide a price per

CCS that was used in the ARPSM analysis. To state that Ameritech assumed that peak utilization would double is again a mischaracterization of the analysis.

Q. Please respond to Dr. Ankum's assertion at page 21 of his direct testimony that a need for a special meeting with Nortel to identify CCS costs implies that CCS costs are not significant.

A. Dr. Ankum apparently is surprised that Ameritech would need to arrange special meetings to address usage sensitive costs with Nortel. Dr. Ankum's observation is incredibly naive. The issues to be addressed in order to identify economic costs for LRSIC or TELRIC studies are not the same issues that engineers face when building and purchasing telecommunications facilities and equipment, and, therefore, are not the same issues that are most pertinent when negotiating and interpreting vendor contracts. Consequently, meetings with switch vendors, which are independent of meetings to determine and negotiate contract terms and conditions, are needed to clarify and better understand usage-sensitive investments for purposes of assessing underlying TELRIC/LRSIC costs. Indeed, such meetings have occurred over the past several decades between switch vendors and the developers of the previous switching model—Telcordia's Switching Cost Information System (SCIS) model—previously used by Ameritech Illinois to identify usage-sensitive switch investments. Ameritech has followed a similar process in developing usage-sensitive investments for ARPSM. Thus, it was perfectly reasonable, and in keeping with prior cost-model development, for Ameritech to discuss and clarify the usage-sensitive elements of the PIP contracts with each switch vendor.

Q. Dr. Ankum also asserts at page 21 that, even if there are costs for "increasing CCS," the answer is not relevant in this proceeding. Do you agree?

A. No. The implication that usage beyond current demand is irrelevant completely overlooks the fundamental method by which volume-sensitive costs are identified, *i.e.*, the application of capacity costing. Simply put, if capacity must be augmented or the timing of replacement capacity must be moved up because of an increase in usage, then the entire investment under those circumstances is usage sensitive.

Q. What is your response to Dr. Ankum's observation at page 21 that Nortel did not identify very much investment that was usage sensitive for their switches "after scratching their heads in an effort to accommodate one of their bigger clients?"

A. Ameritech asked its switch vendors, including Nortel, to identify the usage-sensitive portion of their switches. Nortel provided Ameritech with its response. Ameritech did not base its usage-sensitive investments for Nortel switch equipment on anything other than what Nortel provided. Consequently, the innuendo is irrelevant.

Q. At page 22, Dr. Ankum claims that Nortel's LCM and LGCs are not needed on a forward-looking basis (i.e., with Integrated Digital Loop Carrier systems ("IDLC")), and thus the usage charges identified in its letter are not

relevant. Is he correct?

A. Dr. Ankum is wrong. IDLC is not the forward-looking technology for unbundled services. Also, IDLC is not the forward-looking technology for all bundled services under all circumstances. Therefore, the LCM and LCG are needed.

Q. **What is your response to Dr. Ankum's assertion at page 23 that Nortel indicated there are no usage-based costs on a forward-looking basis for Nortel's switches?**

A. This is a red herring, because Nortel said no such thing. [redacted] As Schedule WCP-6 to my Direct Testimony indicated in describing ARPSM, digital switches in a forward-looking network have both analog lines and digital lines, and ARPSM includes both. Analog lines connect directly to copper loop facilities, whereas digital lines connect to digital subscriber loop facilities. [redacted] An unbiased perusal of the Nortel letter clearly demonstrates the misleading nature of Dr. Ankum's assertion.

Q. **Do you agree with Dr. Ankum's claim at page 23 that Lucent's letter is**

"equally unsupportive" of usage-based investments for Lucent's 5ESS switch family?

A. No. [redacted] The letter from Lucent provides direct support for the Lucent usage calculations made by ARPSM.

Q. Please respond to Dr. Ankum's criticisms at page 25 of his direct testimony of the correspondence between Siemens and Ameritech that was used to generate CCS costs in ARPSM.

A. Once again, Dr. Ankum is incorrect. Ameritech only applied in its cost studies what Siemens identified as usage-sensitive.

<u>Network Usage Cost Analysis Tool ("NUCAT") Issues</u>

Q. At page 52, Dr. Ankum states that you have admitted in Wisconsin that trunk port investments may be calculated based on interoffice usage, and you agreed to do so in Wisconsin. Dr. Ankum presumes that Ameritech Illinois will propose a similar change in this case. Have you made this change?

A. Yes, we have. Trunk port costs are now calculated in the revised studies attached to my rebuttal testimony based on the same interoffice usage used to calculate transport termination costs. However, although I agree with Dr. Ankum conceptually that trunk port investments may appropriately be calculated based on interoffice usage, I do not agree with the calculation he made in Wisconsin or the calculation he makes in this proceeding. More specifically, Dr. Ankum's calculation reflects an understated per-trunk investment due to the inappropriate weighting of replacement and growth trunks he uses. This weighting as applied to trunks is wrong for all of the same reasons it is wrong when applied to lines, which I have already discussed. My analysis, on the other hand, reflects the mix of replacement and growth trunks that are provided under the switch vendor contracts.

Q. At page 52, Dr. Ankum states that Ameritech has not provided any cost support for the daily usage feed charges. Please respond to Dr. Ankum.

A. It appears that Dr. Ankum is now attempting to expand the scope of this proceeding to include rates and costs that have already been decided by this

Commission. The tariffed Daily Usage Feed rate has been in effect since April of 1998 and was fully cost supported during the course of the Commission's TELRIC investigation in I.C.C. Docket No. 96-0486/0569 (Consol.). The cost study supporting this rate was modified in accordance with the Commission's February 17, 1998 Order in that proceeding. Further, the cost support for this rate element has been provided for further investigation in the compliance phase of the TELRIC proceeding in I.C.C. Docket No. 98-0396. To relitigate this issue, yet again, would be a redundant and wasteful exercise.

VI. RESPONSE TO MR. GILLAN

Q. What cost of service issues does Mr. Gillan raise in his direct testimony?

A. First, Mr. Gillan complains at pages 13-17 of his direct testimony that Ameritech Illinois' ULS-ST filing does not comply with the Commission's order in Docket No. 96-0486. Second, Mr. Gillan claims that Ameritech is proposing to maintain the $5.01 interim rate while inappropriately adding a ULS usage charge. Third, Mr. Gillan argues at pages 18-19 that Ameritech's proposed ULS usage charges lack a suitable cost basis in the vendor contracts.

Q. Do you have a response to Mr. Gillan's concerns?

A. Yes, I do. I have already addressed Mr. Gillan's compliance arguments in my response to Mr. Webber above. Similarly, I explained in my response to Mr. Webber that Ameritech is not proposing to maintain the $5.01 interim rate, but rather has proposed a lower ULS port rate coupled with ULS usage charges.

Finally, I have addressed Mr. Gillan's concerns about the cost basis of Ameritech Illinois' usage charges in my response to Dr. Ankum above. Since I have already rebutted the substance of Mr. Gillan's arguments in my previous rebuttal testimony, I will not respond to them further here.

VII. RESPONSE TO MR. GRAVES

Q. At page 13 of his direct testimony, Mr. Graves asked if Ameritech Illinois has made any changes to its depreciation rates as a result of a December 1999 FCC order that adopted a change in the range of allowable depreciation rates for digital switching. Has Ameritech made such a change?

A. No. The TELRIC studies developed for this proceeding reflect the depreciation lives mandated by the Illinois Commission in Docket 96-0486. Specifically, they assume a 16-year depreciation life for digital switching. The December 1999 FCC order adopted a reasonable range of depreciation lives for digital switching of 12 to 18 years. Thus, the life mandated by the ICC in Docket 96-0486 falls within this range.

Q. At pages 13 and 14, Mr. Graves discusses the contract fill rate and suggests that the appropriate forward-looking fill factor for ULS would be the contract fill rate. Do you agree?

A. Generally, yes. As discussed earlier in my rebuttal testimony, the only fill adjustment Ameritech Illinois made in ARPSM was with respect to digital lines provided at the DS1 level. No other fill adjustments were made or required because all other fill factors were implicit in the contract prices.

Q. Finally, Mr. Graves questions whether Ameritech Illinois is proposing that the Commission approve the interim $5.01 rate as a permanent rate, and also questions the basis for Ameritech Illinois' proposed ULS usage charges. Do you have a response to Mr. Graves?

A. As stated in my earlier reply to Mr. Webber, Ameritech Illinois is not suggesting that the $5.01 become permanent. I have also discussed the basis for the ULS usage charge in my response to Dr. Ankum above.

VIII. RESPONSE TO MS. LIU

Q. How do you respond to Ms. Liu's concern at page 8 that the Lucent line and trunk prices are inappropriate because they reflect an expedited installation interval?

A. As discussed earlier, I have provided, in conjunction with my rebuttal testimony, an updated study to reflect Ameritech's normal procurement schedules.

Q. At pages 8 and 9, Ms. Liu states that ARPSM does not disaggregate the replacement line prices into line investment and trunk investments to reflect the separation in the PIP contracts. Ms. Liu says this causes a downward bias in the trunk investment price equivalent and an upward bias in the line

investment price equivalent generated by ARPSM. How do you respond to Ms. Liu's concern?

A. The ARPSM trunk methodology is consistent with the information provided in the switch vendor contracts. The only trunk prices provided in the contracts are for growth trunks. In addition, since one vendor provides replacement lines (including trunks) for $0 per line, identifying a portion of that $0 as trunk-related is an impossible exercise. As an alternative, the ARPSM model first determines how many growth trunks will be installed under the contracts at the contractual growth prices and then divides the result by all lines, replacement as well as growth, that will be provided under the contracts. In effect, this methodology assigns a zero trunk cost to replacement trunks. Although this methodology in theory may introduce a slight upward bias in line investment and a slight downward bias in trunk investment, it results in no double-counting of costs, and is in my opinion reasonable in light of the constraints and structure of the contracts.

Q. How do you respond to Ms. Liu's two proposed alternatives at pages 9 and 10 to the single price equivalence?

A. As mentioned earlier in response to Dr. Ankum, Ms. Liu is, like Dr. Ankum, confusing the calculation of a forward-looking price per line with the calculation of a TELRIC price per line. This is intrinsically a two-step process, of which ARPSM is only the first step.

Again, it is important to remember that ARPSM is a calculator that simply determines the forward-looking market price of switching equipment based on the contracts Ameritech has with its vendors. ARPSM itself is not a TELRIC model in the standard sense of the term. ARPSM does not apply the contractual replacement and growth line prices to the entire network, but rather produces an average forward-looking price. This average per-line price is subsequently used in cost models for all the lines in Ameritech Illinois' network as if, consistent with TELRIC principles, Ameritech Illinois were rebuilding its entire network from scratch.

Q. In response to Ms. Liu's concern at pages 10 and 11, is the trunk-to-line ratio used in ARPSM reasonable?

A. The 16% trunk-to-line ratio is based on 1997 data that indicated that, on average, one trunk was required for every 6.25 lines in service. However, more current data show that one trunk is typically installed for every five lines in service due to increasing network utilization. Since the 16% figure appears to underestimate the trunks required to serve an access line, this assumption is conservative.

Q. Is Ms. Liu correct when she states at page 11 that the vendor alone would bear the extra expense of accommodating extra switch traffic volume?

A. No. The switch contracts clearly provide provisions for switch expansion due to extra traffic volume. I have presented such evidence earlier in my rebuttal.

IX. RESPONSE TO MS. BUCKLEY

Q. At page 4 of Ms. Buckley's testimony, she summarizes her understanding of the various input sources to Ameritech Illinois' NUCAT cost model. Has Ms. Buckley correctly enumerated the appropriate cost model linkages to NUCAT?

A. No, she has not. Ms. Buckley has correctly associated the switching-related investment inputs to the outputs from Ameritech's ARPSM model; however, her additional model references are incorrect. As indicated at page 7, lines 10-12, of my direct testimony, the ECONS model, rather than the Loop Facility Analysis Model (LFAM) model, is used to develop the annual charge factors (ACFs) that are required to convert investment values into annual costs. The LFAM model, which develops investments associated with loop facilities, is not relevant for purposes of developing usage-related costs.

In addition, at page 4, lines 75-76, of her testimony, Ms. Buckley states that "conversation and non-conversation factors are from the CCSCIS model." As I show at page 7, lines 18 – 20, "the CCSCIS model calculates SS7 network investments used for setting up various types of calls." As shown in Ameritech Illinois' ULS-ST cost study documentation, the computation of a non-conversation factor is reflected in Tab 7.4, line (x) and all subsequent references to this factor have been appropriately sourced.

Q. At page 5 of her direct testimony, Ms. Buckley indicates that "as Staff traced input to referenced sources, problems were found." She goes on to specifically identify Ameritech's 1999 Billing cost study as the source of the problem. What is your understanding of the "problems" Ms. Buckley purports to have identified?

A. Ms. Buckley's "problems" do not appear to be associated with the NUCAT model itself but rather to the vintage of the various supporting cost studies/inputs to Ameritech's ULS-ST study.

Q. Ms. Buckley discusses "the matching principle" at page 6 of her testimony. Are you familiar with this particular "principle," and is it relevant to forward-looking TELRIC cost study development?

A. Based on Ms. Buckley's subsequent reference to "revenues and expenses are to match the period of occurrence," I assume that the basis for her statement has its roots in financial reporting principles rather than the principles and regulatory requirements that drive economic cost study development.

Q. Please explain.

A. The Cost Study Organization that supports Ameritech Illinois performs hundreds of service and network element cost studies each year. These studies require literally thousands of inputs, many of which require special studies. It is not always possible, practical, or even desirable to update each and every input assumption or special study every time a major study such as ULS-ST is performed. Such is the case with the 1999 billing study discussed by Ms. Buckley. Although the study was performed in 1999, nothing has transpired since that time that, in the judgment of Ameritech Illinois' cost analysts, would significantly impact the result of the billing study itself or the larger ULS-ST study in general. Said another way, although it is labeled a "1999 study," it remains a valid 2001 cost estimate.

X. RESPONSE TO MS. MARSHALL

Q. At page 3 of her testimony, Ms. Marshall acknowledges that Ameritech Illinois has filed an updated shared and common cost study in compliance with the Commission's Order in ICC Dkt. 98-0555 ("the SBC/AIT Merger Docket"). She goes on to conclude that Ameritech Illinois' new Shared and Common Cost model "should be investigated in this proceeding." (Marshall Direct, pg. 3, lines 66-67). Do you agree with Ms. Marshall's recommendation?

A. I do not agree that the current proceeding represents an appropriate forum for Ms. Marshall's proposed investigation.

Q. Does the Issues List identified in the Illinois Commission's Order initiating this investigation and/or the Staff's October 19, 2000 Report, support Ms. Marshall's recommendation?

A. I do not believe that they do. Issue No. 1 of the Staff Report is "whether the costs and rates comply with prior Commission and FCC Orders." However, the

Commission's Order specifically limited the scope of this investigation to costs and rates, etc. associated with Ameritech Illinois' ULS-ST UNE offering. At page 3 of the ICC Order, it stated "an investigation is initiated into whether the rates and service for unbundled local switching with shared transport provided by Illinois Bell Telephone Company pursuant to the tariff pages enumerated in the Appendix to this order are just and reasonable and in compliance with the provisions of law as specified in Finding (5) above."

Q. Does the fact that this proceeding is focused on investigating the rates and costs for Ameritech Illinois' ULS-ST necessarily preclude Ms. Marshall's recommended investigation of Shared and Common cost loadings?

A. I believe it does for the following reasons. First, shared and common costs are a component of the TELRIC pricing formula applicable to all of Ameritech Illinois' unbundled network elements, interconnection, and local transport and termination offerings. Therefore, any update to Ameritech Illinois' shared and common cost loading ultimately has an impact on the tariffed prices for all of Ameritech Illinois' UNEs, etc. Ameritech Illinois does not believe that price changes for all of Ameritech Illinois' UNEs were an intended result of this Commission's ULS-ST-specific investigation.

Q. Was the Shared and Common cost study the only cost study updated by Ameritech Illinois in compliance with the Commission's SBC/AIT Merger Order?

A. No, it was not. In addition to the updated Shared and Common cost study referenced by Ms. Marshall, Ameritech Illinois also filed updated TELRIC cost studies for all of its UNE, interconnection, and local transport and termination service offerings as required by the Commission's Order.

Q. Has Ms. Marshall proposed to expand the current investigation to include an investigation into Ameritech Illinois Unbundled Loop costs, etc.?

A. I do not think that was Ms. Marshall's intent at all. However, because an integrated approach to TELRIC cost development and shared and common cost identification is required to ensure appropriate cost recovery on a forward-looking basis, the new Shared and Common cost model is, therefore, more appropriately addressed in a comprehensive proceeding addressing all of the TELRIC cost studies filed in compliance with the SBC/AIT merger order as opposed to a narrowly focused tariff investigation such as the instant case.

Q. Ms. Marshall states at pg. 3, lines 57-58, of her testimony that "Staff's brief in Docket 98-0396 recommends that shared and common costs be investigated in this docket." Did the Commission ultimately adopt Staff's recommendations in that proceeding?

A. As acknowledged by Staff witness Mr. Graves at pg. 11 of his direct testimony, a Hearing Examiner's Proposed Order has not yet been issued in the cited proceeding. I do not believe that Staff's briefing position in another proceeding that has not yet been concluded provides the support for Ms. Marshall's proposal to significantly expand the scope of the present proceeding.

Q. At page 10, lines 220 through 224, Ms. Marshall contends that if Ameritech Illinois does not introduce a further update to its shared and common cost study, that "it should provide support for the 34.55% shared and common cost factor used in its direct case and should demonstrate that this factor was calculated in accordance with the Commission's decision in Docket 96-0486." Please respond.

A. The alternative being recommended by Ms. Marshall is duplicative and unnecessary as the issue of compliance with the Commission's Order in ICC Docket No. 96-0486 is already being addressed in I.C.C. Docket No. 98-0396. Staff has already taken the position in that proceeding that Ameritech Illinois has complied with the Commission's TELRIC Order regarding adjustments to the shared and common cost pools. (I.C.C. Docket No. 98-0396, Staff Initial Brief at page 4).

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.